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Kentucky Fried Chicken®
CORPORATION
1967 ANNUAL REPORT

OPERATING HIGHLIGHTS

Fiscal Year Ended September 30

	1967	1966
Gross Income	\$34,631,408	\$21,178,891
Income before taxes	7,100,382	4,374,853
Provision for income taxes	3,575,747	2,143,465
Net income	3,524,635	2,231,388
Per Share Earnings *	.83	.53
Weighted Average Number of common shares outstanding	4,215,639	4,087,077

All figures adjusted to reflect the pooling of interests resulting from mergers of two chains of retail outlets into the corporation.

* Giving effect to three-for-one stock split voted December 15, 1967.

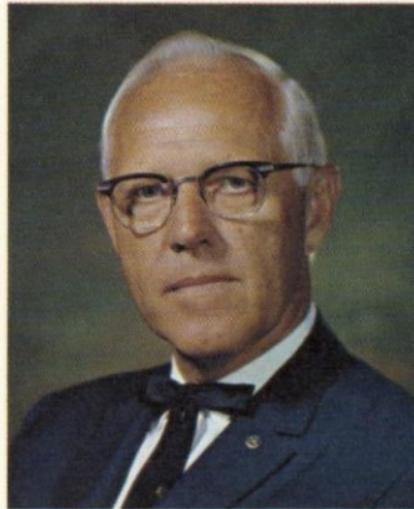
ABOUT THE COVER

Colonel Harland Sanders donned a chef's hat this year to promote the company's secret recipe product in national advertising. New records in total sales, and the accelerated growth of the organization, reflect the degree of his effectiveness. He continues to be the only living image in the entire food industry, and the World's Number One Chicken Salesman.

THE COLONEL'S STORY

The living legend of Colonel Sanders began in the depression years, when he moved the family dining table into his roadside gas station in Corbin, Kentucky. The word spread about the Colonel's delicious fried chicken and hungry travelers soon overflowed into a new 150-seat restaurant. Business boomed until a new interstate highway routed his customers far around the little town of Corbin. That was in 1955, when the Colonel was 65. He took his only income, "a monthly social security check," his car, his chicken cooker, and his secret recipe, and set out to merchandise his idea to restaurant owners across the country. Traveling in true Kentucky Colonel style — white suit, string tie, silver handled cane and his now famous mustache and goatee — he built the foundations of the organization that is today the world's largest marketer of fried chicken. He sold the business to a group of investors in 1964, for \$2,000,000, and a life-time job as goodwill ambassador. Today there are more than 1500 retail outlets in all 50 states and several foreign countries. Thanks to Colonel Sanders, virtually everyone in America has access to his unique product, "finger lickin' good" Kentucky Fried Chicken.

A message from management



JACK C. MASSEY
BOARD CHAIRMAN



JOHN Y. BROWN, JR.
PRESIDENT

Once again, your Company has proved itself the World's Number One Chicken Salesman.

Results from the 1967 fiscal year show new records for gross income, up \$13,452,517, or 63.5 per cent over last year, and in net earnings, up \$1,293,247 or 57.96 per cent over fiscal 1966. These rates of increase were most gratifying to management, especially in view of the substantial program of base-building which we carried out during the year just ended.

Even before addition of the results of our newly acquired corporate-store operations, per share earnings surpassed our projections at the beginning of the year. These new company stores, acquired through merger and purchase during 1967, added to per-share profits, although many of the stores were not open for the full year. We are confident that, with KFC corporate administration and a full year of operation for the entire complement of outlets, we can expect a significantly greater profit contribution from these operations next year.

The corporate store expansion had been a major objective at the beginning of the year, and was a

major accomplishment during 1967. Management had always known that the big share of the profits in the fried chicken business is at the retail level, but we had been reluctant to undertake the problems of managing large groups of outlets, and hesitant about making the necessary investment. Existing company-owned outlets proved to your management in early 1967 that expansion in this area was the most promising avenue to increased sales and earnings for the corporation. During the year we acquired, through purchase or merger, a total of 77 corporate stores in such key markets as Houston, Oklahoma City, Greenville, S. C., Las Vegas, Southern California, and Chicago. We continued building company stores in markets which we already controlled, and finished fiscal 1967 with a total of more than 100 stores in operation, 23 under construction, and plans to have 250 stores in operation within two years.

This expansion becomes significant when you realize that average properly-located, well-run outlets gross \$200,000 to \$350,000 annually, with a 15 to 20 per cent pretax net profit. This planned program can obviously be most important to the financial future of your company.

Expansion in franchised outlets was equally gratify-

ing during the fiscal year, with the total number reaching 1512, for an increase of about 300, which is well above our projections for the year. In addition, many franchisees replaced old units with "new image" buildings in better locations, with resulting increases in sales. At the close of the year, we had commitments for a total of 482 new franchised outlets, and we expect to open 300 during fiscal 1968. New openings will surpass existing commitments because of the new commitments which will be made during the year.

We have also continued our overseas expansion during the year, with the opening of franchised outlets in Nassau and the Philippines, and with formation of a wholly owned subsidiary to develop the Australian market. We already had outlets in several other countries, and results from all areas are very promising. The first Nassau outlet, opened in February, 1967, will apparently gross \$900,000 to \$1 million during its first year. A second store opened there in August is averaging \$20,000 sales per week.

Our rapid growth was reflected in the annual industry-wide survey of the top 400 food service organizations in the nation conducted by INSTITUTIONS Magazine. Your company rose from sixth to second place among commercial operations based on total dollar volume, and was rated in the survey as the fastest-growing organization in the industry. The magazine estimated total sales for the KFC organization at \$288 million, compared with \$187 million for the preceding year.

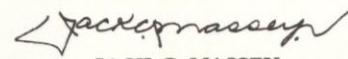
The program of base-building which we announced to you at the beginning of the year has been completed, although with expected growth base-building will be a continuing program. With the work done this year, your company is now in the strongest position in its history. There was much to be done to bring the corporate organization into line with the accelerated growth of the company and its business. There

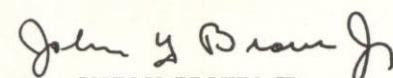
were many skills to find and add to the corporate team, and considerable investment to be made to prepare for the future. Today we feel that we have assembled the finest management team in the food franchise industry.

During the year, we consolidated our operations by moving the training school and certain other activities to Nashville, and we enlarged the headquarters building and warehouse facilities to provide space for the expanding organization.

We are more convinced than ever that your company has an extremely bright future. We are planning, building, and investing in that future in a manner designed to produce the best possible results. We anticipate increases in sales and earnings during 1968 at a rate greater than this year. We see sustained rapid growth in the next decade and in the years beyond. Last year we predicted that our \$15 million baby would grow into a \$100 million international corporation by 1972, but we are now striving to reach that goal at a much earlier date.

Your management is completely dedicated to the growth, progress, and profitability of your company. We appreciate the interest and support of our more than 3500 share-owners.


JACK C. MASSEY
BOARD CHAIRMAN


JOHN Y. BROWN, JR.
PRESIDENT

CONSOLIDATED BALANCE SHEET

Kentucky Fried Chicken Corporation and Consolidated Subsidiaries

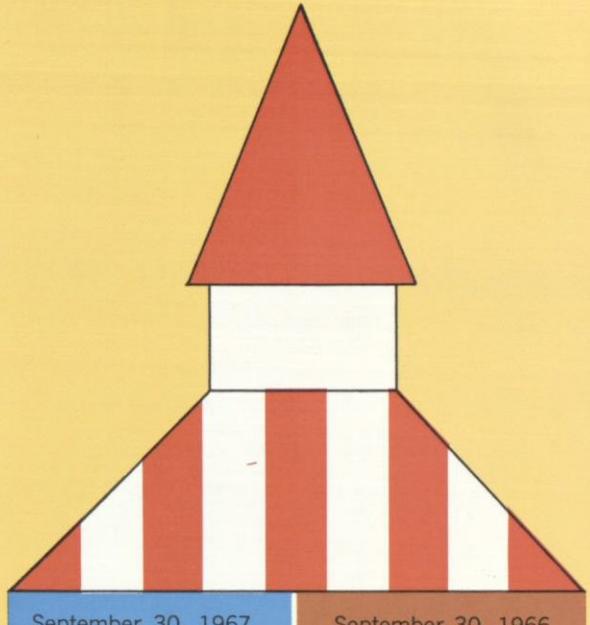
ASSETS

CURRENT ASSETS

Cash
 Trade notes (\$622,131 and \$53,790 at September 30, 1967, and September 30, 1966, respectively) and accounts receivable, less allowance for doubtful accounts of \$176,020 and \$118,091 at September 30, 1967, and September 30, 1966, respectively
 Merchandise inventory — at lower of cost (first-in, first-out method) or market
 Marketable securities
 Prepayments and other current assets
 Contracts receivable for equipment rentals due within one year
 National Cooperative Advertising Program
 Accounts receivable from shareowners (due January 15, 1968)

TOTAL CURRENT ASSETS

	September 30, 1967	September 30, 1966
Cash	\$ 2,417,691	\$1,849,904
Trade notes (\$622,131 and \$53,790 at September 30, 1967, and September 30, 1966, respectively) and accounts receivable, less allowance for doubtful accounts of \$176,020 and \$118,091 at September 30, 1967, and September 30, 1966, respectively	3,930,361	2,308,953
Merchandise inventory — at lower of cost (first-in, first-out method) or market	712,142	262,643
Marketable securities	100,729	41,936
Prepayments and other current assets	287,979	
Contracts receivable for equipment rentals due within one year	214,021	
National Cooperative Advertising Program	122,942	121,297
Accounts receivable from shareowners (due January 15, 1968)	178,668	
TOTAL CURRENT ASSETS	\$ 7,964,533	\$4,584,733
OTHER ASSETS		
Equip. contract notes receivable (less unearned interest thereon of \$221,825) Less amount due within one year included with current assets	\$ 1,165,890 576,996	\$ 588,894
Contracts receivable for equipment rental (less unearned income thereon of \$233,220) Less amount due within one year included with current assets	\$ 559,663 214,021	
Cash surrender value of life insurance	\$ 345,642	
Sundry	80,864 73,137	\$ 39,666
TOTAL OTHER ASSETS	\$ 1,088,537	\$ 39,666
PROPERTY AND EQUIPMENT — on the basis of cost — Note B		
INVESTMENT IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARY		
INTANGIBLE ASSETS		
Franchises — at cost, less amortization of \$666,332 at September 30, 1967, and \$476,446 at September 30, 1966	\$ 857,711	\$1,032,513
Other intangible assets, less amortization	119,445	23,681
Cost in excess of net assets of consolidated subsidiaries at date of acquisition — Note A	2,356,119	
	\$ 3,333,275	\$1,056,194
	\$18,264,451	\$7,186,381



LIABILITIES, CAPITAL STOCK, AND SURPLUS

CURRENT LIABILITIES

Notes payable — bank
Trade accounts payable
Deposits on franchise contracts
Accrued taxes and interest
Accrued compensation and related items
Federal and state income taxes
National Cooperative Advertising Program
Dividends payable
Portion of long-term liabilities due within one year

LONG-TERM LIABILITIES — Note C

5½% note payable to bank
3% note payable to Col. Harland Sanders,
due in annual installments
Mortgage note payable in monthly installments of \$1,206 including interest
of 5½% per annum
Other mortgage notes payable, due in various installment amounts
Other installment notes due on various dates
5% note payable to Jack C. Massey,
due in annual installments of \$100,000

Less amount due within one year included with current liabilities

TOTAL CURRENT LIABILITIES

	September 30, 1967	September 30, 1966
Notes payable — bank	\$ 285,188	\$ 760,803
Trade accounts payable	1,997,483	323,961
Deposits on franchise contracts	309,577	26,546
Accrued taxes and interest	229,226	98,081
Accrued compensation and related items	265,052	928,051
Federal and state income taxes	2,685,513	121,297
National Cooperative Advertising Program	98,194	
Dividends payable	65,801	
Portion of long-term liabilities due within one year	560,460	354,000
TOTAL CURRENT LIABILITIES	\$ 6,496,494	\$2,612,739

CAPITAL STOCK AND SURPLUS

Preferred Stock — Note F:

Series A — 2% cumulative and convertible, par value \$100:
Issued, and outstanding 25,000 shares

Series B — 2% cumulative and convertible, par value \$100:
Authorized, issued, and outstanding 4,000 shares

Undesignated as to series, par value \$100:
Authorized 100,000 shares; issued and outstanding — none

Common Stock, no par value (giving effect to the 5-for-4 and 3-for-1 stock splits) — Note F:

Issued September 30, 1967, 4,052,292 shares and September 30, 1966,
3,881,778 shares (including 104,250 and 102,750 shares in treasury)

Capital surplus

Earned surplus

Less cost of Common Stock in treasury — 104,250 shares at September
30, 1967, and 102,750 shares at September 30, 1966

TOTAL LONG-TERM LIABILITIES

	\$ 3,568,235	\$1,100,000
Preferred Stock — Note F:		
Series A — 2% cumulative and convertible, par value \$100: Issued, and outstanding 25,000 shares	\$ 2,500,000	
Series B — 2% cumulative and convertible, par value \$100: Authorized, issued, and outstanding 4,000 shares	400,000	
Undesignated as to series, par value \$100: Authorized 100,000 shares; issued and outstanding — none		
Common Stock, no par value (giving effect to the 5-for-4 and 3-for-1 stock splits) — Note F:		
Issued September 30, 1967, 4,052,292 shares and September 30, 1966, 3,881,778 shares (including 104,250 and 102,750 shares in treasury)	1,256,637	\$1,035,141
Capital surplus	1,107,498	194,470
Earned surplus	3,342,384	2,428,531
Less cost of Common Stock in treasury — 104,250 shares at September 30, 1967, and 102,750 shares at September 30, 1966	\$ 8,606,519	\$3,658,142
	406,797	184,500
	\$ 8,199,722	\$3,473,642

COMMITMENTS AND CONTINGENT LIABILITIES — Note D

\$18,264,451	\$7,186,381
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STATEMENT OF CONSOLIDATED SURPLUS

**Kentucky Fried Chicken Corporation
and Consolidated Subsidiaries**

Years ended September 30, 1967, and September 30, 1966

CAPITAL SURPLUS		
	Year ended Sept. 30, 1967	Year ended September 30, 1966
	Restated for Pooling of Interests	As Previously Reported
Balance at beginning of year	\$ 194,470	\$ 148,863
Excess of sales price over cost of treasury stock sold		22,880
Excess of option price of stock sold to franchisees over stated value (less cost of registration of \$22,215 — year ended September 30, 1966)	584,210	171,590
Adjustment due to pooling of interests (Kent E. Prestwich Enterprises)	7,450	
Excess of proceeds over stated value from sale of fractional shares in connection with a 5-for-4 stock split	17,968	
Excess of market value over average cost of treasury stock issued in acquisition of consolidate subsidiary	305,336	
Excess of stock retired over Common Stock issued in a pooling of interests (Kent E. Prestwich Enterprises)	133,140	
Deduct amount transferred to Common Stock in connection with 3-for-1 stock split in 1967 and 2-for-1 split in 1966	\$1,242,574	\$ 343,333
	135,076	148,863
BALANCE AT END OF YEAR	<u>\$1,107,498</u>	<u>\$ 194,470</u>
EARNED SURPLUS		
Balance at beginning of year or date of acquisition	\$3,047,723	\$1,177,472
Adjustment due to pooling of interests (Hart's and Ramsey's Take Home, Inc.)	94,312	\$ 995,633
Net profit for the year	<u>\$3,142,035</u>	<u>2,231,388</u>
Deduct:		
Amount transferred to capital stock in connection with 2-for-1 stock split	\$6,666,670	\$3,408,860
Dividends declared		
Cash paid in lieu of fractional shares in connection with 5-for-4 stock split	\$ 259,178	1,794,035
Excess of par value of Preferred Stock issued over par or stated value of Common Stock redeemed in a pooling of interests (Hart's and Ramsey's Take Home, Inc.)	17,984	
Adjustments applicable to Kent E. Prestwich Enterprises:	2,880,000	
Dividends		
Preferred Stock issued as dividend on Common Stock	25,984	\$ 361,137
	141,140	
BALANCE AT END OF YEAR	<u>\$3,324,286</u>	<u>\$ 361,137</u>
See notes to financial statements.	<u>\$3,342,384</u>	<u>\$3,047,723</u>
		<u>\$2,428,531</u>

STATEMENT OF CONSOLIDATED OPERATIONS

Years ended September 30, 1967, and September 30, 1966

**Kentucky Fried Chicken Corporation and
Consolidated Subsidiaries**

	Year ended Sept. 30, 1967	Year ended September 30, 1966	As Previously Reported
Net sales	\$30,611,570	\$18,751,550	\$12,556,845
Cost of goods sold	18,992,540	11,931,077	9,415,508
Monthly franchise fees	\$11,619,030	\$ 6,820,473	\$ 3,141,337
Initial franchise fees	3,491,755	2,155,400	2,258,645
Net income of subsidiary	294,000	229,000	229,000
Other operating income	234,083	42,941	42,941
Selling, general, and administrative expense	\$15,638,868	\$ 9,247,814	\$ 5,671,923
	8,463,895	4,819,239	2,056,476
Other income	\$ 7,174,973	\$ 4,428,575	\$ 3,615,447
	160,216	93,713	78,892
Other deductions	\$ 7,335,189	\$ 4,522,288	\$ 3,694,339
	234,807	147,435	118,407
Provision for income taxes:	INCOME BEFORE INCOME TAXES	\$ 7,100,382	\$ 4,374,853
Federal	\$ 3,251,570	\$ 1,968,122	\$ 1,623,044
State	324,177	175,343	158,853
	\$ 3,575,747	\$ 2,143,465	\$ 1,781,897
	\$ 3,524,635	\$ 2,231,388	\$ 1,794,035
Net income per Common Share (after giving effect to 3-for-1 stock split) — Note 3	\$.83	\$.53	
Note 1 - The statement of operations for the year ended September 30, 1967, includes the operations of Hart's and Ramsey's Take Home, Inc., for the nine months ended September 30, 1967, as this was the only audited period available, however it is believed that the omitted amounts are not significant.	Sales and Other Operating Revenue	Income	Income Per Share
Note 2 - The sales and income of the constituent corporations for the year ended September 30, 1967, were as follows:			
Kentucky Fried Chicken Corporation	\$25,819,799	\$ 2,963,551	.71
Hart's and Ramsey's	4,629,372	276,638	.05*
Prestwich Companies	4,182,237	284,446	.07

*After taking into account Preferred dividend requirements (58,000 annual).

Note 3 - The net income per Common Share gives effect to the potential conversion of 25,000 shares of Series A Preferred and 4,000 shares of Series B Preferred Stock into 212,763 shares of Common Stock. The income per Common Share would have been \$.87 for 1967, and \$.56 for 1966, if the conversion feature had not been effective.

Depreciation and amortization included above amounted to \$550,249 for 1967 and \$251,337 for 1966.

NOTES TO FINANCIAL STATEMENTS

Note A - Principles of Consolidation and Poolings of Interests

Because of a change during 1967 in the character of business of Commercial Investment Company, the accounts of that subsidiary are being consolidated with those of the parent company, beginning in 1967. Accordingly, there is presented herewith the consolidated financial statements of Kentucky Fried Chicken Corporation and Subsidiaries, all of which are wholly owned, at September 30, 1967. The balance sheet at September 30, 1966, has not been restated to include Commercial Investment Company since the effect would not be material.

The inclusion of the accounts of Commercial Investment Company did not affect consolidated income or surplus.

On February 1, 1967, the Corporation acquired all the outstanding stock of Davis House of Greenville, Inc., in a purchase transaction in exchange for cash and Common Stock of Kentucky Fried Chicken Corporation. On August 15, 1967, the Corporation acquired all the outstanding stock of Walker Bros. Enterprises, Inc., in a purchase transaction for cash. The Corporation's investment in these subsidiaries exceeded their net assets at date of acquisition by \$2,356,119. This amount is not being amortized. The operations of these companies are included from the dates of acquisition.

On December 15, 1967, the Corporation acquired Hart's Take Home, Inc., Ramsey's Take Home, Inc., and nineteen Nevada Corporations (the Prestwich Companies) in a transaction accounted for as a pooling of interests. The statement of consolidated operations discloses sales and income of the constituent corporations for the year ended September 30, 1967.

The statements of income and surplus for 1966 have been restated to include the results of operations of the pooled companies.

The balance sheet at September 30, 1966, has not been restated to include such companies since the effect would not be material.

Note B - Property and Equipment includes the following:

	Kentucky Fried Chicken Corporation and Subsidiaries Sept. 30, 1967	Kentucky Fried Chicken Corporation and Consolidated Subsidiaries Sept. 30, 1966
Buildings and improvements	\$ 862,787	
Automobiles and trucks	144,736	\$ 33,346
Office furniture and equipment	162,176	81,891
Equipment	3,275,308	338,206
Leasehold improvements, including retail outlets	1,211,296	268,358
	<u>\$5,656,303</u>	<u>\$721,801</u>
Less allowances for depreciation and amortization	926,192	116,584
	<u>\$4,730,111</u>	<u>\$605,217</u>
Land	934,294	
Construction in progress	213,701	98,931
TOTAL PROPERTY AND EQUIPMENT	<u>\$5,878,106</u>	<u>\$704,148</u>

Note C - Long-term Liabilities

The note payable to Col. Harland Sanders was issued in connection with the acquisition of the Corporation's principal business.

The mortgage notes payable are secured by deeds of trusts on properties costing \$772,050.

Following is a summary of the aggregate maturities of the long-term liabilities:

Year ending:	Kentucky Fried Chicken Corporation and Subsidiaries	Kentucky Fried Chicken Corporation and Consolidated Subsidiaries
September 30, 1967		\$354,000
September 30, 1968	\$ 560,460	400,000
September 30, 1969	2,995,628	400,000
September 30, 1970	330,132	300,000
September 30, 1971	29,365	
September 30, 1972	29,793	
Maturing beyond five years	183,317	

Note D - Commitments and Contingent Liabilities

At September 30, 1967, the Corporation and its subsidiaries were lessees under 84 leases, having terms expiring from 1967 to 1983. The rentals under these leases amount to a minimum annual rental of approximately \$524,340 exclusive of real estate taxes, maintenance and insurance payments required by some of the leases.

The aforementioned minimum annual rent by five year periods is as follows:

1968-1972	\$524,340
1972-1977	389,507
1977-1982	172,959
1982-1987	5,458

The Corporation has employed Col. Harland Sanders for his lifetime at an annual salary of \$40,000.

Note E - Profit-Sharing Plan

The Corporation has a contributory profit-sharing plan, adopted by the predecessor corporation and continued by the Corporation, which provides retirement benefits for eligible employees who elect to participate. The Corporation's contribution may not exceed 10% of compensation (excluding bonuses) of participating employees. The amount charged against income for the year ended September 30, 1967, was \$37,515.

Hart's Take Home, Inc., has entered into an agreement to pay retirement benefits to certain key employees upon the attainment of age 65. These benefits are funded by insurance policies covering the lives of the various participants. At September 30, 1967, policies were in effect on the lives of the participants with a gross annual premium of \$7,840.

Note F - Capitalization

On February 11, 1966, the Corporation increased its authorized capital to 2,000,000 shares of Common Stock, no par value, and effected a 2-for-1 stock split. In connection with the stock split \$148,863 was transferred from capital surplus to capital stock and \$361,137 was transferred from earned surplus to capital stock.

On December 29, 1966, the Corporation effected a 5-for-4 stock split and reduced the stated carrying amount per share from \$1.00 to \$0.80.

On December 15, 1967, the Corporation changed its capital structure to authorize 25,000 shares of Series A 2% cumulative convertible Preferred Stock, 4,000 shares of Series B 2% cumulative convertible Preferred Stock, 100,000 shares of Preferred Stock undesignated as to series, and 10,000,000 shares of Common Stock, and effected a 3-for-1 stock split and changed the stated carrying amount per share from \$.80 to \$.30. In connection with the stock split \$135,076 was transferred from capital surplus to capital stock.

The accompanying financial statements give effect to the 3-for-1 stock split.

The Corporation granted options to franchisees to purchase 367,836 shares of the Corporation's Common Stock at \$3.68 a share (after giving effect to 5-for-4 and 3-for-1 stock splits). The options are not transferable, may be exercised at any time after June 24, 1966, and expire March 31, 1969. The option price is equal to the net price at which a public offering was made at the time the options were granted.

Options have been exercised as follows:

	Number of Shares (a)	Approximate Market Value at Date Exercised	Option Amounts Paid at Date Exercised
Year ended September 30, 1966	56,778	\$ 464,581	\$208,946
Year ended September 30, 1967	173,586	2,257,373	639,079

(a) After giving effect to 5-for-4 and 3-for-1 stock split.

On December 6, 1966, the Corporation adopted a qualified stock option plan for certain key administrative and executive personnel. The plan reserves a maximum of 75,000 shares (after giving effect to the 3-for-1 stock split) of Kentucky Fried Chicken Corporation's authorized but unissued Common Stock for issuance, subject to the plan's restrictions, to selected participants.

To September 30, 1967, options had been granted for two year periods to employees to purchase 34,050 shares at the market price at the date granted. Such option prices range from \$10.00 to \$28.58 per share.

On the first anniversary of the original issue, and on each of the succeeding such anniversary dates, 20% of the outstanding shares of the Series A Preferred and of the Series B Preferred will become convertible into Common Stock of the Corporation, so that at the end of the

five year period following such issue, all outstanding shares of both Series will be fully convertible. The Series A Preferred will be convertible into full shares of Common Stock at the rate of 7½ shares (after giving effect to the 3-for-1 stock split) of Common Stock for each share of Series A Preferred, and the Series B Preferred will be convertible into full shares of Common Stock at the rate of 6.31578 shares (after giving effect to the 3-for-1 stock split) of Common Stock for each share of Series B Preferred.

At any time beginning six years after the date of issuance of the Series A Preferred and Series B Preferred Stock, the Corporation will have the right, by 30 days' written notice, to redeem the whole or any part of either or both such Series at par plus an amount equal to accrued and unpaid dividends.

11,400 shares of Common Stock outstanding are held in escrow to be released to the Prestwich group in the event income from the Prestwich Companies attains specified amounts.

Note G - Depreciation and Amortization Policy and Related Matters

Provision for depreciation of property, plant, and equipment has been made on a basis considered adequate to amortize the cost of depreciable assets over their estimated useful lives, generally by the declining-balance method. The annual amounts of such allowances were computed on the basis of the following range of lives.

Buildings	10 to 40 years
Automobiles and trucks	3 to 8 years
Furniture and equipment	5 to 10 years
Other equipment	3 to 10 years
Leasehold improvements	3½ to 20 years

Repairs, maintenance, and renewals are charged to income. Expenditures for improvements have been capitalized.

The policy of the Corporation is to relieve property accounts and related allowances for properties retired, or otherwise disposed of, at amounts included therein for such properties and any gain or loss resulting therefrom has been included in the statement of income.

The investment credit was not a material amount. It is the policy of the Corporation to include the credit in income for the year in which it arises.

The cost of franchises is being amortized over a period of from 97 to 120 months from date of acquisition.

Trademarks and organization expense are being amortized over a period of five years from the date such costs are incurred.

The amount by which the Corporation's investment in Commercial Investment Company exceeded the net assets of that company at date of acquisition is being amortized over three years from the date of acquisition.

Note H - Federal Income Taxes

The federal income tax returns filed by the Corporation and subsidiaries through the year ended September 30, 1966, have been examined by the Internal Revenue Service, and provision for taxes assessed as a result of such examinations have been made. The federal income tax returns of Hart's Take Home, Inc., and Ramsey's Take Home, Inc., for 1964, 1965, and 1966, are being examined by the Service. No report on these examinations has been issued by the Service, and there has not been any indication of whether or not adjustments will be proposed. Hart's and Ramsey's believe that adequate provision has been made for their federal income taxes, and that adjustments, if any, resulting from these examinations will not be material. The federal income tax returns of the Prestwich Companies are being examined by the Internal Revenue Service. No report on these examinations has been issued by the Service, and there has not been any indication of whether or not adjustments will be proposed. The Prestwich Companies believe that adequate provision has been made for their federal income taxes.

Under the terms of the merger agreements, Kentucky Fried Chicken Corporation has recourse against shareholders of the merging corporations for undisclosed liabilities in excess of a specified amount, including income taxes.

Accountants' Report

Board of Directors
Kentucky Fried Chicken Corporation
Nashville, Tennessee

We have examined the consolidated balance sheet of Kentucky Fried Chicken Corporation and Subsidiaries as of September 30, 1967, and the related consolidated statements of operations and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. As to Hart's Take Home, Inc. and Ramsey's Take Home, Inc., we were furnished with the reports of other accountants on their examination of the financial statements of these constituent companies. We previously made an examination of the consolidated financial statements for the year ended September 30, 1966.

In our opinion, based on our examination and the reports of other accountants referred to above, the accompanying consolidated balance sheet and consolidated statements of operations and surplus present fairly the consolidated financial position of Kentucky Fried Chicken Corporation and Subsidiaries at September 30, 1967, and the consolidated results of their operations for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Ernst & Ernst
Nashville, Tennessee
December 18, 1967

COL. SANDERS' RECIPE...



Kentucky Fried Chicken

"it's finger
lickin' good."





PATTERN OF GROWTH

1967

The rapid rate of growth of the Kentucky Fried Chicken organization continued through fiscal 1967. 300 new retail outlets opened during the period. A total of 300 more are scheduled during 1968.

This geographic expansion and increase in number of KFC stores has contributed to the corporate sales and earnings record, as well as to the total volume of the entire franchise organization.

But, equally important, much of the 1967 growth has been in development of markets which were previously underserved, and in upgrading of facilities and locations. The new standard "image" building, which has been thoroughly tested and proven to be customer-appealing, has gained wide acceptance among franchisees, and many are converting older buildings to this new, standard, universally recognizable design. All new buildings are now being constructed to these exacting specifications, insuring instant recognition, coast-to-coast. Within the next three years, this identification will be universal across the country and in all foreign countries where we have operations.

Conversion has consistently resulted in substantially increased per-outlet sales, and new units of the "image" design are achieving excellent sales records from opening day on. The pattern of growth for the future will emphasize uniform appearance, higher volume locations, and a more profitable overall operation.

KFC'S services to the franchisees

ADVERTISING AND PROMOTION

One major factor in the steady growth of sales during 1967 was the effectiveness of the nation's finest local advertising and sales promotion program. Administered by a National Cooperative Advertising Committee made up of franchisees, the new KFC advertising program produced startling results at the local level and solidified the cross-country image through consistent use of proven ideas. Retail outlets adopting the recommended local plan for the first time reported sizeable increases. Within the year, all franchised outlets began using at least major parts of the program. Totally complete within itself, the program contains an annual advertising and promotion guide with a selection of newspaper ads, radio commercials, and award-winning television spots, plus outdoor advertising posters, point of sale and direct mail materials. Monthly promotions are complete even to the premiums. The corporate staff and the KFC advertising agency have assisted local groups in forming more than 40 regional co-ops across the country, to make the most efficient use of advertising dollars in single markets. The estimated expenditure for the current fiscal year, in national co-op and local franchisee advertising is \$10 million.

We fix Sunday dinner seven days a week

Remember when folks used to have fried chicken for Sunday dinner? Well, now you can have Colonel Sanders' Recipe Kentucky Fried Chicken any day of the week. All you have to do is pick it up and take it home. The service is sudden!

THE BOX.....	\$0.80
5 Pieces Tender, Tasty Chicken Plus All the Trimmin's (Other size orders available)	
THIRIFT BOX.....	\$0.80
9 Pieces Chicken Only	
THE BUCKET.....	\$0.80
12 Pieces Kentucky Fried Chicken 1 Pint Cracklin' Gravy Biscuits (Serves 6 to 7)	
THE BARREL.....	\$0.80
21 Pieces Col. Sanders' Chickens <i>"Take it from the Colonel...it's finger lickin' good!"</i>	

KENTUCKY FRIED CHICKEN.
STORE NAME

We fix Sunday dinner seven days a week

Colonel Harland Sanders of Shively, Kentucky, discovered the secret of finger lickin' good chicken. Now he fixes it for about a million people every week.

The Colonel's been cooking chicken for more than 60 years. But the secret of his success is that he hit on just the right combination of herbs and spices that compliment the flavor of chicken.

The Colonel's chicken goes home with more people, more often, than any other chicken in the world. And it's served hot and barbecued. With or without all the trimmings.

"Take some Kentucky Fried Chicken home tonight...the service is sudden."

KENTUCKY FRIED CHICKEN.
STORE NAME

We fix Sunday dinner seven days a week

Take it from the Colonel. (A complete dinner, 3 pieces tender, tasty chicken, plus all the trimmin's, plus a side dish, \$0.80)

By the bucket. (A family special for 5 to 7 people. 15 Pieces Kentucky Fried Chicken, 1 pint cracklin' gravy and biscuits. \$0.80)

By the barrel. (21 pieces of Colonel Sanders' secret recipe chicken. \$0.80)

KENTUCKY FRIED CHICKEN.
STORE NAME

We fix Sunday dinner seven days a week

"Take it from the Colonel..."

KENTUCKY FRIED CHICKEN

COLONEL SANDERS'

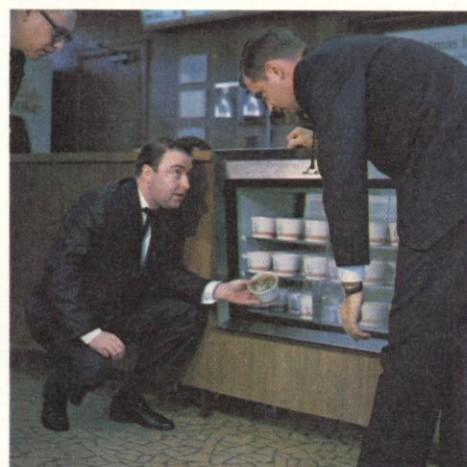
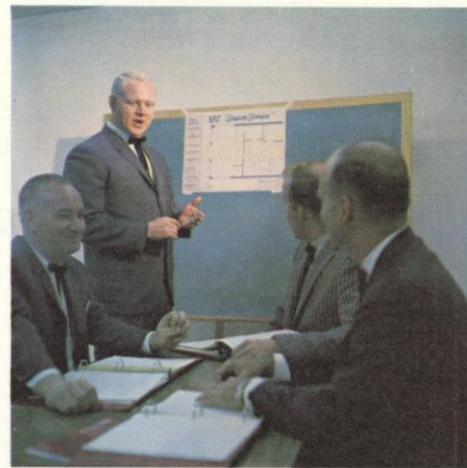
favorite chicken stories

COLORING BOOK



FIELD SERVICES

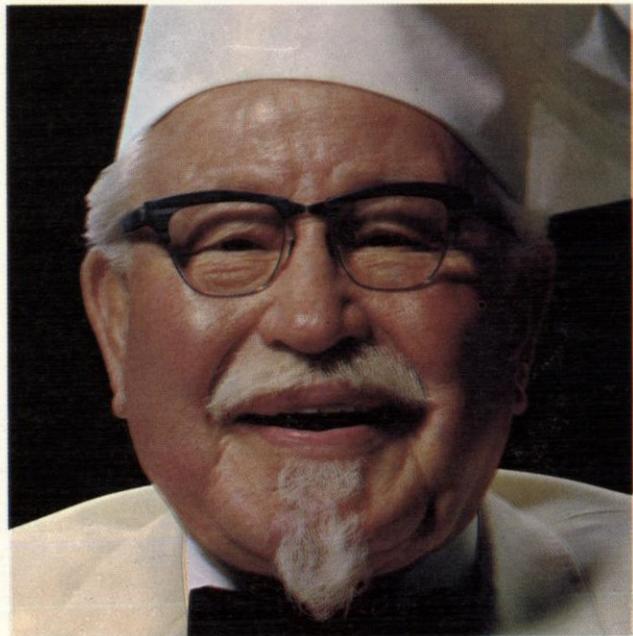
All Kentucky Fried Chicken franchisees are successful, and there are reasons why. KFC franchisees usually begin as on-the-job operators, not as absentee investors. New franchisees are given thorough preparation at KFC University, under skilled technicians and experienced retail managers in a full week of classroom and on-the-job training. This is also available to employees of franchisees, and many send groups to the school. KFC personnel assist with opening new outlets and insure smooth operation from the beginning. Once open, an outlet is inspected periodically by area supervisors for product quality, efficiency, and other standards, and visited for counsel and assistance. Beyond these regular calls, KFC headquarters personnel in all categories are available if a problem develops. Specialists, from engineers to sales promotion men, rush to the site of an outlet with below-average performance. All KFC outlets make money, and they plan to keep it that way.



KFC'S ADVERTISING STORY

Colonel Sanders sold chicken and won national awards in an expanded program of national advertising during 1967, appearing in leading magazines and in television spots. But, most important, the series further strengthened the national KFC image and sent fried chicken lovers in search of their nearest outlet with the familiar sign.

While the Colonel was "fixin' Sunday dinner seven days a week," surveys were proving that more and more families were serving Kentucky Fried Chicken at least once every week. And traveling Americans were seeking out the uniform taste and quality of the KFC product as they traversed the country.



He fixes Sunday dinner seven days a week

Colonel Harland Sanders of Shelbyville, Kentucky, fixes Kentucky Fried Chicken for about a million folks every day. His fried chicken is served more people, more often, than any other chicken in the world!

And no wonder. Kentucky Fried Chicken is made from the Colonel's own secret recipe of 11 different spices and herbs...that compliment the flavor of chicken. And all you do is pick it up...by the box, bucket or barrel.

Take it from the Colonel...



Enough for a bachelor or for a brigade. Now the Colonel wants you right out and say Kentucky Fried Chicken is better than what folks fix at home. But most everybody else will. And all mothers, everywhere, say they'd rather pick dinner up than cook and clean up.

Take home one of the Colonel's Sunday dinners any day of the week...like today, for instance.



Colonel Sanders continued to appear on network television shows, as a special guest of Lawrence Welk, Mike Douglas, and others, making a total of 18 shows in three years, and appeared in two motion pictures during the year. Surveys now confirm him to be one of the most recognizable personalities in America today.

Through increased support from the franchisee family, KFC investment in national consumer advertising rose to almost \$1 million. Meanwhile, franchisees spent more than \$9 million in local and regional advertising, to make the organization one of the nation's top 50 advertisers.



Let the Colonel pack your picnic

Kentucky Fried Chicken[®] is ready for a picnic any time you are... at over 1,200 locations. And it's always fresh and hot when you pick it up.

In a couple or three minutes you're on your way. With "finger lickin' good" chicken and all the trimmings. And napkins and forks and spoons and paper plates. You just bring the fishing rod, your sunglasses, and the kids. Colonel Sanders will do the rest.

He'll season the chicken with a secret recipe of 11 spices and herbs. And cook it according to his patented process. So it'll be tender and tasty... and the best chicken you ever ate.

Pick up Kentucky Fried Chicken today. It'll go anywhere. By the box, bucket, barrel, or new Picnic-Pak. So now you can pick up a picnic... on the way to the picnic. From the World's No. 1 Chicken Salesman.

*We fix Sunday dinner
seven days a week*

See Jerry Lewis and Colonel Sanders in Columbia Pictures' "The Big Mouth." Coming soon to your favorite theatre.



CORPORATE OFFICERS

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Donald D. Greer, *Vice President*
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Omega C. Sattler, *Assistant Secretary*
J. Clarence Evans, *General Counsel*

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George Gray, *Director of Purchasing*
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Arthur E. Pelster, *Director of Engineering*
James W. Yarbrough, *Director of Training School*
Joe Jetton, *Equipment Sales Manager*
Margaret Howerton, *Credit Manager*
William L. Sheets, *Legal Department*

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KFC Operating Co. of Des Moines
KFC Operating Co. of Dayton
KFC Operating Co. of Oklahoma City, Inc.
KFC Operating Co. of Corpus Christi
KFC Operating Co. of North Carolina
KFC Operating Co. of Minnesota
Davis House of Greenville, Inc.
Walker Bros. Enterprises, Inc.

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John Y. Brown, Jr., *President*
Commercial Investment Company
John Y. Brown, Jr., *President*
Omega C. Sattler, *Vice President*

TRANSFER AGENTS

First National City Bank,
New York, New York
The Third National Bank in Nashville,
Nashville, Tennessee

REGISTRARS

Bankers Trust Company,
New York, New York
First American National Bank
Nashville, Tennessee

COUNSEL

Farris, Evans and Evans,
Nashville, Tennessee
Simpson, Thatcher and Bartlett
New York, New York

AUDITORS

Ernst & Ernst, Nashville Tennessee

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*Members, Executive Committee

Kentucky Fried Chicken®
CORPORATION
1967 ANNUAL REPORT